

UNDERWOOD COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

| | <u>Page</u> |
|--|-----------------|
| Officials | 1 |
| Independent Auditor's Report | 2-3 |
| Management's Discussion and Analysis (MD&A) | 4-12 |
| Basic Financial Statements: | <u>Exhibit</u> |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | A 13 |
| Statement of Activities | B 14 |
| Governmental Fund Financial Statements: | |
| Balance Sheet | C 15 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F 18 |
| Proprietary Fund Financial Statements: | |
| Statement of Net Assets | G 19 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | H 20 |
| Statement of Cash Flows | I 21 |
| Notes to Basic Financial Statements | 22-30 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund | 31 |
| Notes to Required Supplementary Information - Budgetary Reporting | 32 |
| Other Supplementary Information: | <u>Schedule</u> |
| Nonmajor Special Revenue Funds: | |
| Combining Balance Sheet | 1 33 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 2 34 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 35-36 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types | 4 37 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 38-39 |
| Schedule of Findings | 40-43 |

Underwood Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|----------------|---------------------|
| Board of Education (Before September 2005 Election) | | |
| Neil Darrington | President | 2007 |
| Lucy Hough | Vice President | 2006 |
| Tim Schwery | Board Member | 2005 |
| Kris Tilley | Board Member | 2006 |
| Julie Handbury | Board Member | 2007 |

| | | |
|---|----------------|------|
| Board of Education (After September 2005 Election) | | |
| Neil Darrington | President | 2007 |
| Lucy Hough | Vice President | 2006 |
| Kris Tilley | Board Member | 2006 |
| Julie Handbury | Board Member | 2007 |
| Tim Schwery | Board Member | 2008 |

| | | |
|-------------------------|----------------------------------|------|
| School Officials | | |
| Edward H. Hawks | Superintendent | 2006 |
| Shelly Schroder | District Secretary/ Treasurer | 2006 |
| William R. Hughes Jr. | Attorney | 2006 |
| Jim Hanks | Attorney | 2006 |

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District, Underwood, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Underwood Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

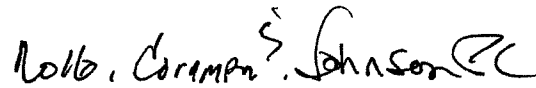
In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2006 on our consideration of Underwood Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Underwood Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson PC". The signature is stylized and cursive.

NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Underwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,082,939 in fiscal 2005 to \$5,447,515 in fiscal 2006, while General Fund expenditures increased from \$5,322,625 in fiscal 2005 to \$5,556,333 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$470,239 in fiscal 2005 to \$361,421 in fiscal 2006, a 23.1% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property taxes, state and federal grant revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- The District received \$619,799 in local option sales and service tax during the year.
- September 2006 Certified Enrollment count resulted in a decrease of 13.9 students, representing a 1.9% decrease compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Underwood Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Underwood Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Underwood Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Underwood Community School District Annual Financial Report

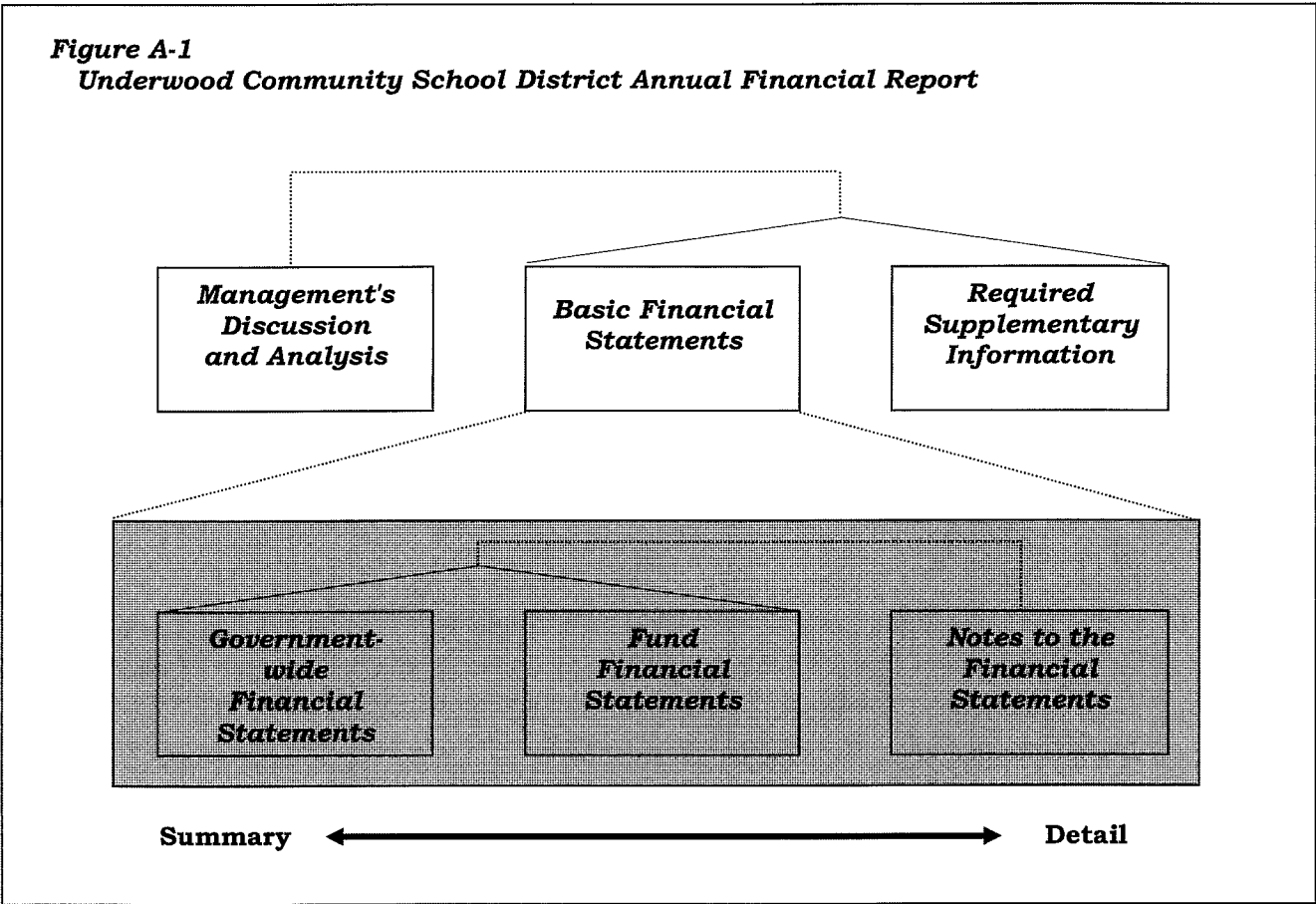


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 | | | |
|--|--|--|---|
| Major Features of the Government-wide and Fund Financial Statements | | | |
| | Government-wide Statements | Fund Statements | |
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: food services and adult education |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/ liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of inflow/ outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition and the Latch Key Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

| | Governmental Activities | | Business-Type Activities | | Total School District | | Total Change |
|--|----------------------------|-----------|-----------------------------|--------|--------------------------|-----------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Current and other assets | \$ 5,046,297 | 4,171,347 | 43,046 | 45,694 | 5,089,343 | 4,217,041 | 20.69% |
| Capital assets | 1,036,668 | 1,080,899 | 4,562 | 1,022 | 1,041,230 | 1,081,921 | -3.76% |
| Total assets | 6,082,965 | 5,252,246 | 47,608 | 46,716 | 6,130,573 | 5,298,962 | 15.69% |
| Long-term liabilities | 16,399 | 0 | 0 | 0 | 16,399 | 0 | 100.00% |
| Other liabilities | 2,731,167 | 2,435,052 | 23,919 | 22,528 | 2,755,086 | 2,457,580 | 12.11% |
| Total liabilities | 2,747,566 | 2,435,052 | 23,919 | 22,528 | 2,771,485 | 2,457,580 | 12.77% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 1,036,668 | 1,080,899 | 4,562 | 1,022 | 1,041,230 | 1,081,921 | -3.76% |
| Restricted | 1,938,916 | 1,286,659 | 0 | 0 | 1,938,916 | 1,286,659 | 50.69% |
| Unrestricted | 359,815 | 449,636 | 19,127 | 23,166 | 378,942 | 472,802 | -19.85% |
| Total net assets | \$ 3,335,399 | 2,817,194 | 23,689 | 24,188 | 3,359,088 | 2,841,382 | 18.22% |

The District's combined net assets increased by 18.22% or \$517,706 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$652,257 or 50.69% over the prior year. The increase was primarily due to the increase in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$40,691 or 3.76%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business-Type Activities | | Total School District | | Total Change |
|---|----------------------------|-----------|-----------------------------|---------|--------------------------|-----------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 778,860 | 936,470 | 240,971 | 222,010 | 1,019,831 | 1,158,480 | -11.97% |
| Operating grants and contributions and restricted interest | 550,235 | 491,620 | 87,230 | 78,765 | 637,465 | 570,385 | 11.76% |
| Capital grants and contributions and restricted interest | 10,392 | 0 | 0 | 0 | 10,392 | 0 | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 1,878,931 | 1,702,580 | 0 | 0 | 1,878,931 | 1,702,580 | 10.36% |
| Local option sales and service tax | 619,799 | 505,346 | 0 | 0 | 619,799 | 505,346 | 0.00% |
| Unrestricted state grants | 2,580,697 | 2,442,518 | 0 | 0 | 2,580,697 | 2,442,518 | 5.66% |
| Other | 131,596 | 32,727 | 1,077 | 107 | 132,673 | 32,834 | 304.07% |
| Total revenues | 6,550,510 | 6,111,261 | 329,278 | 300,882 | 6,879,788 | 6,412,143 | 7.29% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 3,682,391 | 3,509,682 | 0 | 0 | 3,682,391 | 3,509,682 | 4.92% |
| Support services | 2,028,837 | 2,023,096 | 0 | 0 | 2,028,837 | 2,023,096 | 0.28% |
| Non-instructional programs | 0 | 1,207 | 329,777 | 295,998 | 329,777 | 297,205 | 10.96% |
| Other expenses | 321,077 | 444,404 | 0 | 0 | 321,077 | 444,404 | -27.75% |
| Total expenses | 6,032,305 | 5,978,389 | 329,777 | 295,998 | 6,362,082 | 6,274,387 | 1.40% |
| Change in net assets | 518,205 | 132,872 | (499) | 4,884 | 517,706 | 137,756 | 275.81% |
| Net assets beginning of year | 2,817,194 | 2,684,322 | 24,188 | 19,304 | 2,841,382 | 2,703,626 | 5.10% |
| Net assets end of year | \$ 3,335,399 | 2,817,194 | 23,689 | 24,188 | 3,359,088 | 2,841,382 | 18.22% |

In fiscal 2006, property tax and unrestricted state grants account for 68% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.7% of the revenue from business type activities.

The District's total revenues were approximately \$6.88 million of which \$6.55 million was for governmental activities and \$.33 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 7.29% in revenues and a 1.4% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$6,550,510 and expenses were \$6,032,305.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|------------------|---------------------------|-------------------------|
| Instruction | \$ 3,682,391 | 2,576,227 |
| Support services | 2,028,837 | 2,012,591 |
| Other expenses | 321,077 | 104,000 |
| Totals | <u>\$ 6,032,305</u> | <u>4,692,818</u> |

- The cost financed by users of the District's programs was \$778,860.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$560,627.
- The net cost of governmental activities was financed with \$1,878,931 in local tax, \$619,799 in local option sales and service tax, \$2,580,697 in unrestricted state grants and \$85,179 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$329,278 and expenses were \$329,777. The District's business-type activities include the School Nutrition and Latch Key Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Underwood Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,311,644, above last year's ending fund balances of \$1,747,584. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$470,239 on June 30, 2005 to \$361,421 on June 30, 2006. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the state and federal grant revenue during the year resulted in an increase in total revenues. Revenues were exceeded by expenditures ensuring the decrease in the District's financial position.
- The Management fund balance increased from \$43,740 in 2005, to \$65,048 in 2006, due to the decrease in expenditures.
- The Capital Projects fund balance increased during the current year, from \$1,140,223 to \$1,787,653. This increase was the result of the District receiving \$619,799 in local option sales and service tax and only spending \$23,579 during the current year.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$24,188 at June 30, 2005 to \$23,689 at June 30, 2006, representing a decrease of approximately 2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$273,122 more than budgeted revenues, a variance of 4.1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area due to the timing of disbursements paid at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1,041,230, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.91% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$87,977.

The original cost of the District's capital assets was \$4,846,220. Governmental funds account for \$4,814,149 with the remainder of \$32,071 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The improvements other than buildings totaled \$16,373 at June 30, 2006, compared to \$17,973 reported at June 30, 2005. This decrease resulted from the depreciation expense during the current year.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-Type Activities | | Total School District | | Total Change |
|-----------------------------------|----------------------------|-----------|-----------------------------|-------|--------------------------|-----------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-06 |
| Land | \$ 97,590 | 97,590 | 0 | 0 | 97,590 | 97,590 | 0.00% |
| Buildings | 798,302 | 841,911 | 0 | 0 | 798,302 | 841,911 | -5.46% |
| Improvements other than buildings | 16,373 | 17,973 | 0 | 0 | 16,373 | 17,973 | -9.77% |
| Machinery and equipment | 124,403 | 123,425 | 4,562 | 1,022 | 128,965 | 124,447 | 3.50% |
| Total | \$ 1,036,668 | 1,080,899 | 4,562 | 1,022 | 1,041,230 | 1,081,921 | -3.91% |

Long-Term Debt

At June 30, 2006, the District had \$16,399 in other long-term debt outstanding. This represents an increase of 100% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

| | Total | | Total |
|------------------|-----------------|------|----------|
| | School District | | Change |
| | June 30, | | June 30, |
| | 2006 | 2005 | 2005-06 |
| Early retirement | \$ 16,399 | 0 | 100.0% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Federal legislation with respect to student achievement in the future years may result in sanctions that could have financial implications for the general fund operating budget. The "No Child Left Behind" act of 2001 applies sanctions to underperforming schools that, if the school remains under-performing (as defined by the act) allows the parents of pupils in the school to move to another school, transferring their funding to the new school. This act applies to individual school facilities and does not necessarily apply to school districts, however, the revenue impact to a school district could be material if the school district has a school facility that under-performs and starts to lose enrollment.
- Continued budget concerns at state level will affect future projections. After the appropriation of State Aid (and after the adoption of the District's budget for a particular fiscal year), the Governor and the General Assembly have the ability to rescind all or a portion of the appropriation. Certain areas of the State's budget are exempt from these potential cuts; however, K-12 and community college funding are not exempt from rescission. Historically, rescissions were imposed in an "across-the-board" fashion, and all state funding was reduced in a percentage format. This had the potential to impact schools with low valuation per pupil much greater than schools with high per pupil valuations. In the 2002 General Assembly, the formula for rescission was altered for K-12 funding, such that all future rescissions, if any, would be applied to K-12 education on a "per-pupil" basis.
- All District employees qualify for participation in the Iowa Public Employees Retirement System(IPERS). Both the District and its employees contribute to this fund. IPERS has an unfunded actuarial liability and unrecognized actuarial loss. Given this fact, additional contributions have been required by the General Assembly. The legislation increased IPERS contribution rates 0.5 percent per year for four years and restricts certain practices and benefits to control benefit costs. The increases begin July 1, 2007.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelly Schroeder, District Board Secretary/Treasurer, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

BASIC FINANCIAL STATEMENTS

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,702,379 | 37,517 | 2,739,896 |
| Receivables | | | |
| Property tax: | | | |
| Delinquent | 20,601 | 0 | 20,601 |
| Succeeding year | 2,151,892 | 0 | 2,151,892 |
| Accounts | 1,807 | 0 | 1,807 |
| Due from other governments | 169,618 | 0 | 169,618 |
| Inventories | 0 | 5,529 | 5,529 |
| Capital assets, net of accumulated depreciation (Note 4) | 1,036,668 | 4,562 | 1,041,230 |
| Total Assets | 6,082,965 | 47,608 | 6,130,573 |
| Liabilities | | | |
| Accounts payable | 50,277 | 0 | 50,277 |
| Salaries and benefits payable | 528,998 | 21,149 | 550,147 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,151,892 | 0 | 2,151,892 |
| Unearned revenues | 0 | 2,770 | 2,770 |
| Long-term liabilities (Note 5): | | | |
| Portion due within one year: | | | |
| Early Retirement | 16,399 | 0 | 16,399 |
| Total Liabilities | 2,747,566 | 23,919 | 2,771,485 |
| Net Assets | | | |
| Investment in capital assets, net of related debt | 1,036,668 | 4,562 | 1,041,230 |
| Restricted for: | | | |
| Salary improvement program | 1,480 | 0 | 1,480 |
| Talented and Gifted | 3,528 | 0 | 3,528 |
| Other | 84 | 0 | 84 |
| Capital projects | 1,787,653 | 0 | 1,787,653 |
| Management levy | 48,649 | 0 | 48,649 |
| Physical plant and equipment levy | 15,124 | 0 | 15,124 |
| Other special revenue purposes | 82,398 | 0 | 82,398 |
| Unrestricted | 359,815 | 19,127 | 378,942 |
| Total Net Assets | \$ 3,335,399 | 23,689 | 3,359,088 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | |
|--|------------------|-------------------------|--|--|--|-----------------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business-Type Activities |
| Functions/Programs | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | \$ 2,538,407 | 400,825 | 293,416 | 0 | (1,844,166) | 0 |
| Special instruction | 543,956 | 95,797 | 35,589 | 0 | (412,570) | 0 |
| Other instruction | 600,028 | 279,676 | 861 | 0 | (319,491) | 0 |
| | 3,682,391 | 776,298 | 329,866 | 0 | (2,576,227) | 0 |
| Support services: | | | | | | |
| Student services | 152,881 | 0 | 0 | 0 | (152,881) | 0 |
| Instructional staff services | 215,561 | 0 | 0 | 0 | (215,561) | 0 |
| Administration services | 699,132 | 0 | 0 | 0 | (699,132) | 0 |
| Operation and maintenance of plant services | 607,929 | 0 | 0 | 0 | (607,929) | 0 |
| Transportation services | 353,334 | 2,562 | 13,684 | 0 | (337,088) | 0 |
| | 2,028,837 | 2,562 | 13,684 | 0 | (2,012,591) | 0 |
| Other expenditures: | | | | | | |
| Facilities acquisitions | 69,183 | 0 | 0 | 10,392 | (58,791) | 0 |
| BEA flowthrough | 206,685 | 0 | 206,685 | 0 | 0 | 0 |
| Depreciation(unallocated)* | 45,209 | 0 | 0 | 0 | (45,209) | 0 |
| | 321,077 | 0 | 206,685 | 10,392 | (104,000) | 0 |
| Total governmental activities | 6,032,305 | 778,860 | 550,235 | 10,392 | (4,692,818) | 0 |
| Business-Type activities: | | | | | | |
| Non-instructional programs: | | | | | | |
| Nutrition services | 296,883 | 196,752 | 87,230 | 0 | 0 | (12,901) |
| Latch Key | 32,894 | 44,219 | 0 | 0 | 0 | 11,325 |
| Total business-type activities | 329,777 | 240,971 | 87,230 | 0 | 0 | (1,576) |
| Total | \$ 6,362,082 | 1,019,831 | 637,465 | 10,392 | (4,692,818) | (1,576) |
| General Revenues: | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | \$ 1,830,069 | 0 | 1,830,069 |
| Capital outlay | | | | 48,862 | 0 | 48,862 |
| Local option sales and services | | | | 619,799 | 0 | 619,799 |
| Unrestricted state grants | | | | 2,580,697 | 0 | 2,580,697 |
| Unrestricted investment earnings | | | | 85,179 | 1,077 | 86,256 |
| Other | | | | 46,417 | 0 | 46,417 |
| Total general revenues | | | | 5,211,023 | 1,077 | 5,212,100 |
| Changes in net assets | | | | 518,205 | (499) | 517,706 |
| Net assets beginning of year | | | | 2,817,194 | 24,188 | 2,841,382 |
| Net assets end of year | | | | \$ 3,335,399 | 23,689 | 3,359,088 |

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

| | General | Capital Projects | Nonmajor Special Revenue Funds | Total |
|--|---------------------|---------------------|---|------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 851,626 | 1,693,732 | 153,535 | 2,698,893 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 18,703 | 0 | 1,898 | 20,601 |
| Succeeding year | 1,973,303 | 0 | 178,589 | 2,151,892 |
| Interfund | 0 | 0 | 402 | 402 |
| Accounts | 1,807 | 0 | 0 | 1,807 |
| Due from other governments | 63,368 | 95,858 | 10,392 | 169,618 |
| Total Assets | \$ 2,908,807 | 1,789,590 | 344,816 | 5,043,213 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Interfund payable | \$ 402 | 0 | 0 | 402 |
| Accounts payable | 44,683 | 1,937 | 3,657 | 50,277 |
| Salaries and benefits payable | 528,998 | 0 | 0 | 528,998 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 1,973,303 | 0 | 178,589 | 2,151,892 |
| Total liabilities | 2,547,386 | 1,937 | 182,246 | 2,731,569 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Salary improvement program | 1,480 | 0 | 0 | 1,480 |
| Talented and Gifted | 3,528 | 0 | 0 | 3,528 |
| Other | 84 | 0 | 0 | 84 |
| Unreserved: | 356,329 | 1,787,653 | 162,570 | 2,306,552 |
| Total fund balances | 361,421 | 1,787,653 | 162,570 | 2,311,644 |
| Total Liabilities and Fund Balances | \$ 2,908,807 | 1,789,590 | 344,816 | 5,043,213 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 2,311,644

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in in the governmental funds. 1,036,668

Blending of the Internal Service Fund to be reflected on
an entity-wide basis. 3,486
not reported as a liability in governmental funds.

Long-term liabilities, including early retirement payable,
are not due and payable in the current period and,
therefore, are not reported in the funds. (16,399)

Net assets of governmental activites (page 13) \$ 3,335,399

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

| | General | Capital Projects | Nonmajor Special Revenue Funds | Total |
|--|--------------|---------------------|---|-----------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 1,705,136 | 619,799 | 173,795 | 2,498,730 |
| Tuition | 496,622 | 0 | 0 | 496,622 |
| Other | 115,814 | 51,210 | 247,671 | 414,695 |
| State sources | 3,035,897 | 0 | 128 | 3,036,025 |
| Federal sources | 94,046 | 0 | 10,392 | 104,438 |
| Total revenues | 5,447,515 | 671,009 | 431,986 | 6,550,510 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 2,534,795 | 0 | 0 | 2,534,795 |
| Special instruction | 543,956 | 0 | 0 | 543,956 |
| Other instruction | 380,779 | 0 | 233,187 | 613,966 |
| | 3,459,530 | 0 | 233,187 | 3,692,717 |
| Support services: | | | | |
| Student services | 152,881 | 0 | 0 | 152,881 |
| Instructional staff services | 215,561 | 0 | 0 | 215,561 |
| Administration services | 694,221 | 0 | 8,111 | 702,332 |
| Operation and maintenance of plant services | 508,052 | 0 | 101,458 | 609,510 |
| Transportation services | 319,403 | 0 | 18,178 | 337,581 |
| | 1,890,118 | 0 | 127,747 | 2,017,865 |
| Other expenditures: | | | | |
| Facilities acquisitions | 0 | 23,579 | 45,604 | 69,183 |
| AEA flowthrough | 206,685 | 0 | 0 | 206,685 |
| | 206,685 | 23,579 | 45,604 | 275,868 |
| Total expenditures | 5,556,333 | 23,579 | 406,538 | 5,986,450 |
| Net change in fund balances | (108,818) | 647,430 | 25,448 | 564,060 |
| Fund balance beginning of year | 470,239 | 1,140,223 | 137,122 | 1,747,584 |
| Fund balance end of year | \$ 361,421 | 1,787,653 | 162,570 | 2,311,644 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 564,060

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|-----------|----------|
| Capital outlays | \$ 43,064 | |
| Depreciation expense | (87,295) | (44,231) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

| | | |
|------------------|----------|---------|
| ISEBA Assessment | 12,889 | |
| Early retirement | (16,399) | (3,510) |

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

1,886

Changes in net assets of governmental activities (page 14)

\$ 518,205

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

| | Business-Type Activities: Enterprise Funds | | | Governmental Activities: Internal Service |
|--|--|---------------|---------------|--|
| | School Nutrition | Latch Key | Total | |
| Assets | | | | |
| Cash and pooled investments | \$ 18,410 | 19,107 | 37,517 | 3,486 |
| Inventories | 5,529 | 0 | 5,529 | 0 |
| Capital assets, net of accumulated depreciation(Note 4) | 4,562 | 0 | 4,562 | 0 |
| Total Assets | 28,501 | 19,107 | 47,608 | 3,486 |
| Liabilities | | | | |
| Salaries and benefits payable | 17,592 | 3,557 | 21,149 | 0 |
| Unearned revenue | 2,770 | 0 | 2,770 | 0 |
| Total Liabilities | 20,362 | 3,557 | 23,919 | 0 |
| Net Assets | | | | |
| Investment in capital assets | 4,562 | 0 | 4,562 | 0 |
| Unrestricted | 3,577 | 15,550 | 19,127 | 3,486 |
| Total Net Assets | \$ 8,139 | 15,550 | 23,689 | 3,486 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

| | Business-Type Activities: Enterprise Fund | | | Governmental Activities: Internal Service |
|------------------------------|---|--------------|----------|--|
| | School Nutrition | Latch Key | Total | |
| Operating revenues: | | | | |
| Local sources: | | | | |
| Charges for services | \$ 196,752 | 44,219 | 240,971 | 33,027 |
| Operating expenses: | | | | |
| Non-instructional programs: | | | | |
| Food service operations: | | | | |
| Salaries | 97,520 | 28,526 | 126,046 | 0 |
| Benefits | 12,930 | 3,306 | 16,236 | 31,141 |
| Services | 2,837 | 0 | 2,837 | 0 |
| Supplies | 182,914 | 1,062 | 183,976 | 0 |
| Depreciation | 682 | 0 | 682 | 0 |
| Total operating expenses | 296,883 | 32,894 | 329,777 | 31,141 |
| Operating income(loss) | (100,131) | 11,325 | (88,806) | 1,886 |
| Non-operating revenues: | | | | |
| State sources | 4,439 | 0 | 4,439 | 0 |
| Federal sources | 82,791 | 0 | 82,791 | 0 |
| Interest income | 1,077 | 0 | 1,077 | 0 |
| Total non-operating revenues | 88,307 | 0 | 88,307 | 0 |
| Change in net assets | (11,824) | 11,325 | (499) | 1,886 |
| Net assets beginning of year | 19,963 | 4,225 | 24,188 | 1,600 |
| Net assets end of year | \$ 8,139 | 15,550 | 23,689 | 3,486 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

| | Business-Type Activities: Enterprise Funds | | | Governmental Activities Internal Service |
|--|--|--------------|-----------|---|
| | School Nutrition | Latch Key | Total | |
| Cash flows from operating activities: | | | | |
| Cash received from sale of lunches and breakfasts | \$ 194,355 | 0 | 194,355 | 0 |
| Cash received from miscellaneous operating activities | 2,903 | 44,219 | 47,122 | 33,027 |
| Cash payments to employees for services | (109,722) | (31,675) | (141,397) | (31,141) |
| Cash payments to suppliers for goods or services | (165,637) | (1,062) | (166,699) | 0 |
| Net cash provided by (used in) operating activities | (78,101) | 11,482 | (66,619) | 1,886 |
| Cash flows from non-capital financing activities: | | | | |
| State grants received | 4,439 | 0 | 4,439 | 0 |
| Federal grants received | 61,020 | 0 | 61,020 | 0 |
| Net cash provided by non-capital financing activities | 65,459 | 0 | 65,459 | 0 |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (4,222) | 0 | (4,222) | 0 |
| Cash flows from investing activities: | | | | |
| Interest on investments | 1,077 | 0 | 1,077 | 0 |
| Net increase(decrease) in cash and cash equivalents | (15,787) | 11,482 | (4,305) | 1,886 |
| Cash and cash equivalents at beginning of year | 34,197 | 7,625 | 41,822 | 1,600 |
| Cash and cash equivalents at end of year | \$ 18,410 | 19,107 | 37,517 | 3,486 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | | | |
| Operating income(loss) | \$ (100,131) | 11,325 | (88,806) | 1,886 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | | | |
| Commodities consumed | 21,771 | 0 | 21,771 | 0 |
| Depreciation | 682 | 0 | 682 | 0 |
| Increase in inventories | (1,657) | 0 | (1,657) | 0 |
| Increase in salaries and benefits payable | 728 | 157 | 885 | 0 |
| Increase in unearned revenue | 506 | 0 | 506 | 0 |
| Net cash provided by(used in) operating activities | \$ (78,101) | 11,482 | (66,619) | 1,886 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 18,410 | 19,107 | 37,517 | 3,486 |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$21,771.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Underwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Underwood, Iowa, and the predominate agricultural territory in Pottawattamie County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Underwood Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Underwood Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pottawattamie County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Latch Key Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Latch Key Fund is used to account for child care services.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and

the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable

governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 1,500 |
| Buildings | 1,500 |
| Land improvements | 1,500 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 1,500 |

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|---|
| Buildings | 50 years |
| Land improvements | 20 years |
| Machinery and equipment | 5-20 years |

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned

when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

| | Amortized Cost |
|-----------------------|---------------------|
| Diversified portfolio | <u>\$ 2,169,485</u> |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivable and payable at June 30, 2006 is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------|--------------|---------------|
| Special Revenue: | | |
| Physical Plant and | | |
| Equipment Levy | General | <u>\$ 402</u> |

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 97,590 | 0 | 0 | 97,590 |
| Total capital assets not being depreciated | 97,590 | 0 | 0 | 97,590 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,606,970 | 0 | 0 | 2,606,970 |
| Improvements other than buildings | 525,003 | 0 | 0 | 525,003 |
| Machinery and equipment | 1,541,522 | 43,064 | 0 | 1,584,586 |
| Total capital assets being depreciated | 4,673,495 | 43,064 | 0 | 4,716,559 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,765,059 | 43,609 | 0 | 1,808,668 |
| Improvements other than buildings | 507,030 | 1,600 | 0 | 508,630 |
| Machinery and equipment | 1,418,097 | 42,086 | 0 | 1,460,183 |
| Total accumulated depreciation | 3,690,186 | 87,295 | 0 | 3,777,481 |
| Total capital assets being depreciated, net | 983,309 | (44,231) | 0 | 939,078 |
| Governmental activities capital assets, net | <u>\$ 1,080,899</u> | <u>(44,231)</u> | <u>0</u> | <u>1,036,668</u> |
| Business-type activities: | | | | |
| Machinery and equipment | \$ 27,849 | 4,222 | 0 | 32,071 |
| Less accumulated depreciation | 26,827 | 682 | 0 | 27,509 |
| Business-type activities capital assets, net | <u>\$ 1,022</u> | <u>3,540</u> | <u>0</u> | <u>4,562</u> |

Depreciation expense was charged by the District as follows:

| | |
|--|------------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 1,988 |
| Other | 4,473 |
| Support services: | |
| Administration services | 800 |
| Operation and maintenance of plant services | 894 |
| Transportation services | 33,931 |
| | 42,086 |
| Unallocated depreciation | 45,209 |
| Total governmental activities depreciation expense | <u>\$ 87,295</u> |
| Business-type activities: | |
| Food services | <u>\$ 682</u> |

(5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

| | Balance | | | Balance | Due |
|------------------|-----------|-----------|-----------|---------|----------|
| | Beginning | | | End of | Within |
| | of Year | Additions | Deletions | Year | One Year |
| Early retirement | \$ 0 | 16,399 | 0 | 16,399 | 16,399 |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based on a percentage of the salary and the number of years of service. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$191,489, \$179,683, \$172,306 respectively, equal to the required contributions for each year.

(7) Risk Management

Underwood Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$206,685 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the non-instructional functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

| | Governmental Funds Actual | Proprietary Funds Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------------------|--------------------------------|-----------------|------------------|-------------|--------------------------------|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 3,410,047 | 242,048 | 3,652,095 | 3,437,952 | 3,437,952 | 214,143 |
| State sources | 3,036,025 | 4,439 | 3,040,464 | 3,033,714 | 3,033,714 | 6,750 |
| Federal sources | 104,438 | 82,791 | 187,229 | 135,000 | 135,000 | 52,229 |
| Total revenues | 6,550,510 | 329,278 | 6,879,788 | 6,606,666 | 6,606,666 | 273,122 |
| Expenditures: | | | | | | |
| Instruction | 3,692,717 | 0 | 3,692,717 | 3,955,243 | 3,955,243 | 262,526 |
| Support services | 2,017,865 | 0 | 2,017,865 | 2,082,525 | 2,082,525 | 64,660 |
| Non-instructional programs | 0 | 329,777 | 329,777 | 308,300 | 308,300 | (21,477) |
| Other expenditures | 275,868 | 0 | 275,868 | 1,716,064 | 1,716,064 | 1,440,196 |
| Total expenditures | 5,986,450 | 329,777 | 6,316,227 | 8,062,132 | 8,062,132 | 1,745,905 |
| Excess(deficiency) of revenues over(under) expenditures | 564,060 | (499) | 563,561 | (1,455,466) | (1,455,466) | (2,019,027) |
| Other financing sources, net | 0 | 0 | 0 | 5,000 | 5,000 | 5,000 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures | 564,060 | (499) | 563,561 | (1,450,466) | (1,450,466) | (2,014,027) |
| Balance beginning of year | 1,747,584 | 24,188 | 1,771,772 | 1,809,005 | 1,809,005 | (37,233) |
| Balance end of year | \$ 2,311,644 | 23,689 | 2,335,333 | 358,539 | 358,539 | 1,976,794 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the non-instructional functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Expendable Trust | Total |
|--|-------------------------|---------------------|--|---------------------|----------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 63,678 | 61,536 | 7,459 | 20,862 | 153,535 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year delinquent | 1,370 | 0 | 528 | 0 | 1,898 |
| Succeeding year | 125,000 | 0 | 53,589 | 0 | 178,589 |
| Interfund | 0 | 0 | 402 | 0 | 402 |
| Due from other governments | 0 | 0 | 10,392 | 0 | 10,392 |
| Total Assets | \$ 190,048 | 61,536 | 72,370 | 20,862 | 344,816 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 0 | 0 | 3,657 | 0 | 3,657 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 125,000 | 0 | 53,589 | 0 | 178,589 |
| Total Liabilities | 125,000 | 0 | 57,246 | 0 | 182,246 |
| Fund balances: | | | | | |
| Unreserved | 65,048 | 61,536 | 15,124 | 20,862 | 162,570 |
| Total Liabilities and Fund Balances | \$ 190,048 | 61,536 | 72,370 | 20,862 | 344,816 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2006

| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Expendable Trust | Total |
|--|-------------------------|---------------------|--|---------------------|---------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 124,933 | 0 | 48,862 | 0 | 173,795 |
| Other | 5,852 | 240,541 | 507 | 771 | 247,671 |
| State sources | 92 | 0 | 36 | 0 | 128 |
| Federal sources | 0 | 0 | 10,392 | 0 | 10,392 |
| TOTAL REVENUES | 130,877 | 240,541 | 59,797 | 771 | 431,986 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Other instruction | 0 | 233,187 | 0 | 0 | 233,187 |
| Support services: | | | | | |
| Administration services | 8,111 | 0 | 0 | 0 | 8,111 |
| Operation and maintenance of plant services | 101,458 | 0 | 0 | 0 | 101,458 |
| Transportation services | 0 | 0 | 18,178 | 0 | 18,178 |
| | 109,569 | 0 | 18,178 | 0 | 127,747 |
| Other expenditures: | | | | | |
| Facilities acquisitions | 0 | 0 | 45,604 | 0 | 45,604 |
| TOTAL EXPENDITURES | 109,569 | 233,187 | 63,782 | 0 | 406,538 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 21,308 | 7,354 | (3,985) | 771 | 25,448 |
| FUND BALANCES BEGINNING OF YEAR | 43,740 | 54,182 | 19,109 | 20,091 | 137,122 |
| FUND BALANCES END OF YEAR | \$ 65,048 | 61,536 | 15,124 | 20,862 | 162,570 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-------------------------------|---------------------------------|----------|-------------------|---------------------------|
| Drama/Speech | \$ (337) | 783 | 434 | 12 |
| Band Activity | 599 | 8,827 | 8,277 | 1,149 |
| Track Activity | 1,560 | 4,843 | 5,947 | 456 |
| Basketball Activity | 286 | 4,950 | 4,853 | 383 |
| Football Activity | (1,219) | 7,562 | 6,168 | 175 |
| Baseball Activity | (1,174) | 3,054 | 3,767 | (1,887) |
| Wrestling Activity | 12 | 1,524 | 1,485 | 51 |
| Volleyball Activity | (1,749) | 1,952 | 155 | 48 |
| Softball Activity | (1,060) | 3,489 | 2,970 | (541) |
| Activity Tickets | 73 | 6,700 | 5,860 | 913 |
| Golf Activity | 674 | 749 | 761 | 662 |
| Elementary Art Club | 1,245 | 9,538 | 9,171 | 1,612 |
| Baseball Club | 683 | 14,622 | 13,741 | 1,564 |
| Cheerleading | 233 | 1,755 | 1,986 | 2 |
| High School Art Club | 650 | 2,288 | 1,888 | 1,050 |
| High School Concessions | 1,766 | 11,676 | 15,034 | (1,592) |
| Cross Country Club | (1) | 695 | 727 | (33) |
| Boys Basketball Club | 478 | 11,107 | 9,922 | 1,663 |
| FFA Account | 3,431 | 0 | 0 | 3,431 |
| Interest | 492 | 2,717 | 2,945 | 264 |
| Girls Basketball Club | 136 | 6,599 | 6,150 | 585 |
| Library Club | 717 | 200 | 207 | 710 |
| Football Club | 2,931 | 5,301 | 6,322 | 1,910 |
| Drill Team | (473) | 6,695 | 3,672 | 2,550 |
| Middle School Pop/Juice | 2,685 | 6,698 | 8,417 | 966 |
| High School Pop/Juice | 500 | 10,225 | 9,337 | 1,388 |
| Revolving | 0 | 1,952 | 2,137 | (185) |
| Soda | 221 | 0 | 0 | 221 |
| High School Science Club | 18 | 160 | 160 | 18 |
| Softball Club | 3,263 | 10,392 | 11,094 | 2,561 |
| Elementary Student Council | 916 | 922 | 463 | 1,375 |
| Middle School Student Council | 202 | 2,002 | 1,965 | 239 |
| High School Student Council | 819 | 665 | 634 | 850 |
| High School Boys Track Club | (289) | 0 | 0 | (289) |
| FCCLA/FHA Account | 358 | 1,038 | 885 | 511 |
| High Vocal Activity | 2,506 | 4,063 | 4,144 | 2,425 |
| High School Volleyball Club | 2,739 | 1,325 | 2,176 | 1,888 |
| Weightlifting Club | 340 | 1,808 | 1,905 | 243 |
| Softball Pitching | 306 | 946 | 946 | 306 |
| High School Wrestling Club | (1,517) | 120 | (780) | (617) |
| High School Yearbook | 1,697 | 5,084 | 6,130 | 651 |
| High School Girls Track Club | 912 | 791 | 885 | 818 |
| Wrestling Camp | 14 | 0 | 0 | 14 |

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-------------------------------|---------------------------------|----------|-------------------|---------------------------|
| Basketball Cheerleading | 2,816 | 1,116 | 1,325 | 2,607 |
| Football Cheerleading | 446 | 1,523 | 1,170 | 799 |
| Wrestling Cheerleading | 250 | 884 | 722 | 412 |
| Elementary Field Trip | 79 | 2,370 | 2,377 | 72 |
| Elementary Student Directory | 397 | 209 | 0 | 606 |
| Middle School Leadership | 1,614 | 710 | 1,083 | 1,241 |
| Peers | 158 | 0 | 0 | 158 |
| Middle School Quest | 1,944 | 1,083 | 900 | 2,127 |
| SOS Account | 532 | 0 | 0 | 532 |
| Sweatshirts | (225) | 1,111 | 1,038 | (152) |
| Middle School TAG | 17 | 0 | 0 | 17 |
| Alumni | 300 | 0 | (281) | 581 |
| Spanish Club | 180 | 0 | 0 | 180 |
| JH Volleyball Club | 12 | 435 | 428 | 19 |
| Jump Rope for Heart | 130 | 3,630 | 3,630 | 130 |
| Elementary Playground Acct | 17 | 0 | 0 | 17 |
| Fellowship Athletes | 79 | 0 | 0 | 79 |
| Middle School Wrestling Club | (1,192) | 15 | 0 | (1,177) |
| Middle School Yearbook | 837 | 0 | 0 | 837 |
| Middle School Activity Center | 1,437 | 92 | 339 | 1,190 |
| Middle School Vocal Activity | 283 | 8,698 | 6,561 | 2,420 |
| Elementary Music | 2,025 | 1,155 | 1,534 | 1,646 |
| Home/School Partnership | 57 | 0 | 0 | 57 |
| Elementary PAC | 7,503 | 14,164 | 14,551 | 7,116 |
| Pott Cty Spelling Bee | (13) | 0 | (13) | 0 |
| JH Girls Track Club | 80 | 0 | 0 | 80 |
| Girard Memorial Library Fund | 53 | 8 | 0 | 61 |
| Wrestling Mat Fund | 2,000 | 0 | 0 | 2,000 |
| Band Flag Corp | 0 | 254 | 254 | 0 |
| JH Football Club | 9 | 710 | 702 | 17 |
| JH Basketball Club | 15 | 0 | 0 | 15 |
| JH Boys Track Club | (195) | 1,444 | 1,645 | (396) |
| Class of 2005 | 281 | 0 | 281 | 0 |
| Class of 2006 | 1,893 | 2,465 | 4,488 | (130) |
| Class of 2007 | 3,134 | 2,785 | 4,725 | 1,194 |
| Class of 2007 | 0 | 4,440 | 2,058 | 2,382 |
| MS Concessions | 1,586 | 2,414 | 2,126 | 1,874 |
| Adopt Instrument Fund | 0 | 2,560 | 950 | 1,610 |
| Band/Chicago Trip | 0 | 15,949 | 15,949 | 0 |
| BB/SB Complex | 0 | 4,500 | 1,705 | 2,795 |
| Total | \$ 54,182 | 240,541 | 233,187 | 61,536 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

| | | Modified Accrual Basis | | | |
|---|--|------------------------|-----------|-----------|-----------|
| | | Years Ended June 30, | | | |
| | | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | | \$ 2,498,730 | 2,207,926 | 2,233,396 | 2,178,735 |
| Tuition | | 496,622 | 489,707 | 399,863 | 395,125 |
| Other | | 414,695 | 478,538 | 334,416 | 84,596 |
| State sources | | 3,036,025 | 2,847,711 | 2,651,484 | 2,641,763 |
| Federal sources | | 104,438 | 86,427 | 50,790 | 52,078 |
| Total | | \$ 6,550,510 | 6,110,309 | 5,669,949 | 5,352,297 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | | \$ 2,534,795 | 2,387,862 | 2,356,053 | 2,223,366 |
| Special instruction | | 543,956 | 505,093 | 543,316 | 584,223 |
| Other instruction | | 613,966 | 614,014 | 470,998 | 228,246 |
| Support services: | | | | | |
| Student services | | 152,881 | 167,985 | 149,960 | 143,330 |
| Instructional staff services | | 215,561 | 221,128 | 183,763 | 183,613 |
| Administration services | | 702,332 | 665,318 | 554,918 | 503,239 |
| Operation and maintenance of plant services | | 609,510 | 650,068 | 597,250 | 532,258 |
| Transportation services | | 337,581 | 347,764 | 259,036 | 345,061 |
| Non-instructional programs | | 0 | 1,207 | 4,044 | 554 |
| Other expenditures: | | | | | |
| Facilities acquisitions | | 69,183 | 87,497 | 127,711 | 0 |
| AEA flow-through | | 206,685 | 194,509 | 189,817 | 197,633 |
| Total | | \$ 5,986,450 | 5,842,445 | 5,436,866 | 4,941,523 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Underwood Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

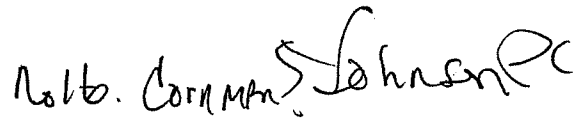
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Underwood Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Underwood Community School District and other parties to Underwood Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Underwood Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson P.C.", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2006

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund Accounts - We noted during our audit that the District had a balance remaining in the interest account.

Recommendation - Interest should be allocated out among the Student Activity accounts at year end.

Response - The balance was allocated out in FY06 among the various Student Activity accounts.

Conclusion - Response accepted.

- I-C-06 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets sold.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - We will be reviewing our procedures.

Conclusion - Response accepted.

- I-D-06 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - To be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa, the District will continue to train personnel to plan ahead relating to check requests. Furthermore, that if something would happen where the board secretary/business manager was absent due to long term illness or absence, the board of education will take proper action to designate a temporary signatory.

Conclusion - Response accepted.

I-E-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - The District will implement procedures to track the hours worked for non-certified coaches, and will determine that the wage is in compliance with the minimum wage requirements.

Conclusion - Response accepted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the certified budget amounts in the non-instructional functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The process is being monitored and procedures are in place to amend the budget in a timely manner.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------------|--------|
| Marsha Slobodnick, Secretary Spouse owns TJ Wood | Construction of various items | \$503 |

In accordance with Attorney's General opinion dated November 9, 1976, the transaction with the spouse of Marsha Slobodnick does not appear to be a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The bank has been contacted and the interest rate is being adjusted.

Conclusion - Response accepted.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Deficit Balances - We noted during our audit that there were a few accounts in the Student Activity fund that had negative individual balances.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will continue to monitor this item and will work on establishing alternative to eliminate the deficits.

Conclusion - Response accepted.